

FX Daily: Settling into summer ranges

Volatility is sinking and it may well be that the busy data calendar this week - ahead of the 4 July holiday - provides a last chance for markets to break out before things get quieter again



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⬇️ USD: No news is bad news for the dollar

It is starting to look as though FX markets are settling into summer ranges. Volatility at the short end of the options curve is sinking and even in US equity markets, the VVIX, or the first derivative of volatility, is also softening up as well. It may well be then that the busy data calendar this week ahead of the 4 July holiday may be a last opportunity to see some range breakouts/define trends, before volatility sinks even further. As we discuss in the [G10 FX Week Ahead](#), this week sees nonfarm payrolls, the ISM and a few Federal Reserve speakers. It is early days, but we do get a sense that markets are starting to take the daily 1645CET fixes of new US virus cases in their stride such that regional lockdowns do not deliver a knockout blow to equity markets. Away from the events calendar, we'll also have to see how US money markets and the dollar perform around quarter and half year-end. Typically, there can be a little tightness (\$ positive) in USD money markets and the outperformance of European over US equities could actually support the dollar in portfolio re-balancing tomorrow. So, while a quiet data calendar today could see DXY drift down to the 96.80/97.00 area, we'd probably say much follow-through DXY selling beyond those levels looks unlikely.

➔ EUR: Merkel and Macron meet in Germany

EUR/USD held support at 1.1160/70 last week and starts the week slightly supported. On the calendar today is a meeting in late afternoon between German Chancellor Angela Merkel and French President Emmanuel Macron in an attempt to make progress on the EU Recovery Fund. The goal here is to lay the groundwork for a deal to be struck at the July 17-18 EU summit. Also look out today for the June eurozone confidence readings, expected to bounce back given the substantial re-opening. EUR/USD could trade in a narrow 1.1220-1.1280 range today. Elsewhere the Polish Presidential election has resulted in a run-off as our [Polish team had warned](#). EUR/PLN is steady under resistance at 4.47 and awaits a likely run-off on 12 July.

➔ GBP: Infrastructure boost?

Reports are suggesting that GBP is trading stronger on a purported infrastructure boost in the UK, following an interview with the Sunday press conducted by Prime Minister Boris Johnson. However, not many politicians are talking austerity right now and instead we see GBP dominated by EU departure talks, the next round of which takes place tomorrow. EUR/GBP is trading pretty close to our end quarter target at 0.9100 and could GBP could in fact see a little more downside.

➔ CAD: Speculators still short CAD

Friday's CFTC data showed that speculative community remained short the Canadian dollar. This could help limit USD/CAD's upside to 1.37/38 and we favour 1.34 in one month.

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